

# Alternative Forms of Gaming



Submitted by the Indiana Gaming Commission  
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### **I. Introduction**

The Indiana Gaming Commission (“Commission”) staff presents this report pursuant to legislation enacted by the Indiana General Assembly during the 2005 regular session. Specifically, Enrolled Act 1120 directed the Commission to study alternative forms of gaming to determine whether other forms of gaming would be beneficial for Indiana. The legislation specified that the Commission may include the following in its study:

- (1) New games or trends in gaming that might be compatible with Indiana’s existing gaming industry.
- (2) Estimates of the amount of revenue that could be generated from different gaming alternatives.
- (3) The estimated impact that gaming alternatives would have on existing gaming revenues.

The legislation directed the Commission to report its findings to the Director of the Office of Management and Budget on or before October 1, 2005, and to the General Assembly in electronic format pursuant to IC 5-14-6.

The Commission staff was informed by members of the Indiana General Assembly that the impetus for this provision of Enrolled Act 1120 was a proposal submitted by Kenilworth Systems Corporation (“Kenilworth”). Consequently, the Commission has focused its review of alternative forms of gambling on the proposal submitted by Kenilworth.

### **II. Roulabette**

Kenilworth proposes to transmit via satellite, an image of a live roulette game or other live game from one of Indiana’s riverboat casinos to other states or countries so that citizens of those jurisdictions may place bets on the outcome of each spin. Patrons would place bets while viewing the action at the live game on home television sets.

#### A. Technological Operation of Roulabette

The United States Patent and Trademark Office issued a patent to Kenilworth’s Chairman and President, Mr. Herbert Lindo, in June of 2003. The patent, #6,575,834 is entitled: “System and Method For Remote Roulette and Other Game Play Using Game Table at a Casino.” Lindo assigned the patent to Kenilworth in 2000. In addition to the

patent for the wagering system, Kenilworth applied for two additional patents in 2005 related to methods for supplying funds to the Roulabette set-top boxes for operation with Roulabette.

Kenilworth submitted a brochure to the Commission, which describes the logistics and technology involved in Roulabette. Kenilworth, citing confidentiality concerns, did not provide additional requested information about the function of Roulabette technology. Although they did not have a prototype available for demonstration, Kenilworth does have a digital presentation available for review on Kenilworth's website at <http://kenilworthsystemscorporation.com/>. Based upon the information provided, the Commission staff has gleaned only a general understanding of the proposed functionality of Roulabette.

Kenilworth proposes to place television cameras in a live casino. The cameras would capture the images and sounds of a live casino roulette game as it occurs. The images would be broadcast via satellite for viewing by the subscribers of digital satellite and digital cable television companies. Wagering would take place via "set-top boxes" in jurisdictions that approve the technology. The set-top boxes would receive the results of the game play through a microprocessor embedded in the box. Kenilworth states that its patent covers the microprocessor, which processes the wagers as they occur, adding and subtracting the wagered amounts against the patron's account, which would be operated by the lottery of the participating state. The patron would make deposits into his or her Roulabette account by visiting lottery retail locations operated in the receiving state. The set-top boxes would communicate with the state lotteries through telephone or internet connections. Kenilworth proposes that the broadcasts would be engaging television programs, which would include commentators and entertainment segments to add additional excitement to the gaming experience.

Kenilworth represents in its brochure that Roulabette will "prevent" underage and compulsive gambling because the lotteries in the states receiving the transmission will ensure that age laws are followed. In addition, Kenilworth avers that should the recipient states choose, the broadcasts could be aired only at certain times, to further reduce exposure of the programming to underage persons. The company points out that compulsive gambling could be regulated through Roulabette; since all of the wagering will be tracked by the lottery through patron accounts, theoretically, problem gamblers could be tracked and helped. Loss limits could also be imposed.

#### B. Kenilworth's Proposal to the State of Indiana

In a letter dated July 11, 2005,<sup>1</sup> Kenilworth's Senior Vice President, Mr. Andrew Hirko, iterates Kenilworth's proposal to Indiana. "Our offer to Indiana is two and one half percent (2.5%) of Kenilworth's net win before deducting expenses from worldwide operations with an annual cap of one billion dollars (\$1,000,000,000) for a period of fifteen (15) years." The letter further states that:

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<sup>1</sup> See attached Exhibit 1 at 6.

Upon entering into a definitive contract with the Commission for the Riverboat broadcasts, which contract will be subject to Kenilworth delivering a suitable, irrevocable, \$100 million security guarantee acceptable to the Commission.

Kenilworth, through an intermediary, will request from long time business associates of Kenilworth, (herein referred to as the “Guarantors”), a guaranteed loan of \$100 million to Kenilworth from a bank with the loan, to be repaid by Kenilworth from revenue earned from the broadcasts, from the proceeds of a proposed planned underwriting and the sale of pledged Kenilworth securities. The repayment of the loan will occur no later than three (3) years from the date of the guarantee.<sup>2</sup>

Kenilworth’s proposal is based upon an estimate that the potential win worldwide for live “real-time” remote simulcast gaming is \$500 billion annually. Kenilworth proposes to share the revenue with the lotteries and governments from the broadcasting jurisdictions as well as the jurisdictions that agree to receive the broadcasts and allow citizens to place bets. In addition, the satellite broadcasters, cable broadcasters and the casinos themselves will share revenue based upon a calculated percentage of net win. Kenilworth will retain thirty percent of the net win as profit, defray operating expenses and share seventy percent of net revenue.

### C. Potential Patent Infringement Case

The Commission was contacted on or about May 31, 2005 by Mr. Melvin Molnick. Mr. Molnick is the inventor and holder of patent # 5,800,268 called “Method of Participating in a Live Casino Game from a Remote Location.” Mr. Molnick has stated to the Commission that Kenilworth’s patent violates his earlier patent. Mr. Molnick alleges that if Kenilworth begins operations pursuant to its proposal, Molnick will file suit to enforce his patent.

Mr. Molnick’s patent describes a method through which a player can participate in a live casino game from a remote location. The player links with the casino through an information link from an interface station, which includes a monitor and keypad. The player enters financial information and the casino communicates with the player’s financial institution. Images of live game play are transmitted to the player. The player transmits bets and game play to the casino. The bets are tracked and debits and credits made through the open line between the casino and the player’s financial institution.

The Commission staff has reviewed Mr. Molnick’s patent and the patent held by Kenilworth. It is obvious that the systems are similar. Beyond that, the Commission staff would not want to speculate as to the outcome of any action on the part of Mr. Molnick to enforce his patent. It is simply important to note that should a patent infringement action be filed against Kenilworth, the company would have to expend resources to defend its patent. It would be expensive and time consuming for the

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<sup>2</sup> *Id.*

company to defend the action. A successful action against Kenilworth's patent would be devastating to the company given that the patent is the basis for the company's proposed operation. Representatives of Kenilworth have stated that although they are aware of Mr. Molnick and his patent; they truly believe that they could defend their patent.

### **III. Alternative Forms of Gambling**

There is no question that gambling is taking on many new forms that take patrons outside of the traditional live betting situations of brick and mortar casinos, racetracks and the purchase of lottery tickets at retail locations. Internet gambling is the most obvious example.

Kenilworth's proposal, involving the use of interactive television, is another mechanism through which people are now able to place bets. Interactive television services, while still relatively unpopular in the United States, are becoming more widespread in Europe. British Sky Broadcasting ("BSkyB") offers services that allow patrons to play games, send e-mails and make purchases through digital television service. Gambling is fast becoming a popular interactive television commodity. BSkyB offers sports-book betting, fixed-odds slot machines and racing. In the United States, a 2000 amendment to the Interstate Horseracing Act<sup>3</sup> has caused some states, including California, to authorize betting on simulcast horse races via the internet and interactive television. TVG, for example, offers such interactive simulcast and betting services through Dish Network in certain states.

Gambling services are also evolving to include other interactive mechanisms, such as mobile gaming through handheld wireless devices or cellular phones.

The Commission staff has been approached by another company that would like to provide Indiana casino patrons with the ability to view the results of bets made at casinos via the internet. This proposal and Kenilworth's likely scratch the surface in terms of the number of alternative gambling proposals the Commission and the State of Indiana will be presented with in the coming years.

As a testament to the increasing concern that regulatory bodies have about the issues surrounding internet gambling and other new forms of gambling, a group of twelve states is gathering to form a multi-state Internet Gambling Task Force. The Commission staff is currently participating in the group to ensure that Indiana remains abreast of the latest information regarding the status of legality and enforcement of alternative forms of gambling such as internet wagering. In fact, the first meeting of the task force will convene in Indianapolis on December 13, 2005.

Unlike gambling in traditional venues, the legality of the various manifestations of interactive gambling is unsettled. Arguably, Indiana's consideration of any forms of alternative gambling must start with an analysis of legality under federal and state laws.

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<sup>3</sup> 15 U.S.C. § 3001, *et seq.*

## IV. Legal Issues

Whether or not internet gambling and other forms of interactive remote wagering are legal under federal law is another question that will have to be explored in conjunction with the proposal by Kenilworth. The Commission staff is unaware of any case law that discusses remote wagering via interactive television. However, in the last several years a limited number of federal courts have weighed in on the applicability of federal criminal laws to internet wagering.

### A. Status of Legality Under Federal Law

The concerns with respect to federal law center on the potential of the proposal to run afoul of several federal criminal laws including the Interstate Wire Act of 1961,<sup>4</sup> which is the same Federal Law that has been used to successfully prosecute isolated internet gambling cases.<sup>5</sup> Kenilworth insists that its system does not violate the Interstate Wire Act of 1961. The Interstate Wire Act of 1961 provides that:

Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers, shall be fined under this title or imprisoned not more than two years, or both.<sup>6</sup>

The debate has largely been about whether internet gambling is effectively prohibited by this and several other related federal laws. The debate with respect to internet wagering centers around the type of gambling criminalized by the Wire Act. Many argue that the phrase “sporting event or contest” refers only to sports wagering. The Department of Justice (“DOJ”) has maintained that the law also refers to other types of “contests” besides sporting contests and that it extends to all types of gambling, including casino-style gambling.<sup>7</sup> However, one federal court has held that the Wire Act does not apply to non-sports gaming.<sup>8</sup>

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<sup>4</sup> 18 U.S.C. § 1084. *See also* The Travel Act 18 U.S.C. § 1952, and Illegal Gambling Business Act 18 U.S.C. § 1955.

<sup>5</sup> *See* United States v. Jay Cohen, 260 F.3d 68 (2<sup>nd</sup> Cir. 2001).

<sup>6</sup> 18 U.S.C. § 1084(a).

<sup>7</sup> *See* attached Exhibit 2 (a letter dated August 23, 2002 to Dennis Neilander, Chairman, Nevada Gaming Control Board from United States Assistant Attorney General Michael Chertoff regarding the position of the Department of Justice on the applicability of federal law to Internet gambling. The letter states: “[a]s set forth in prior Congressional testimony, the Department of Justice believes that federal law prohibits gambling over the Internet, including casino-style gambling.”)

<sup>8</sup> *See* In Re: Mastercard Int'l Inc., 313 F.3d 257 (5<sup>th</sup> Cir. 2002).

Kenilworth argues that its proposal does not violate the Wire Act. The logic of that argument is as follows:

- The mechanism utilized is actually satellite transmission as opposed to telephone-based transmissions. Therefore, Kenilworth argues, no “wire communication facility” is utilized.
- In addition, Kenilworth maintains that the Wire Act is not invoked because the betting takes place within one state, and only the image of the roulette wheel is transmitted in interstate or foreign commerce; the company analogizes this to the situation with simulcast horseracing and the sports wagering that is legal in Nevada.

Although Kenilworth argues that its proposal is entirely legal under federal law, there are still concerns. Indeed, the State of Nevada raised the issue of legality in 2003 when it considered Nevada Senate Bill 431, which would have enabled the Nevada State Gaming Control Board to draft regulations to allow transmissions to be sent from Nevada gaming venues in connection with Kenilworth’s proposal to the State of Nevada. In the context of a hearing before the Senate Committee on Judiciary, the Chairman of the Nevada State Gaming Control Board, Dennis K. Neilander testified about the proposal. Neilander testified that it was possible that the Justice Department would disagree with Kenilworth that the technology would not run afoul of the Wire Act.

The definition of “wire communication facility” found at 18 U.S.C. 2510 states that “‘wire communication’ means any aural transfer made in whole or in part through the use of facilities for the transmission of communications by the aid of wire, cable or other like connection between the point of origin and the point of reception (including the use of such connection in a switching station) furnished or operated by any person engaged in providing or operating such facilities for the transmission of interstate or foreign communications or communications affecting interstate or foreign commerce.”<sup>9</sup> It is the reference to a “like connection” that arguably leaves open the possibility that satellite transmissions might be included. Neilander spoke about the DOJ’s position in his testimony: “[t]hey view the definition of “wire” to be very broad and expansive. Although there are not any cases I am aware of, I would suspect [the DOJ] would view satellite as a wire transmission and subject to the Interstate Wire Act of 1961.”

Kenilworth also argues that they fall under a “safe harbor” provision in the Wire Act. This provision of the Act exempts the transmission of information for use in news reporting of sporting events or contests or for the transmission of information assisting in the placing of bets or wagers on a sporting event or contest *from* a state where such betting is legal *to* a state where such betting is legal.<sup>10</sup> According to Neilander, the safe harbor provisions would not apply if an entity had a revenue sharing relationship with the transaction, as would presumably be the case with the entities engaged by Kenilworth. The betting activity, Kenilworth argues, is totally contained within the state receiving the

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<sup>9</sup> 18 U.S.C. § 2510.

<sup>10</sup> 18 U.S.C. § 1084(b).

transmission. Another concern is that Kenilworth's transmissions might be viewed as constituting information assisting in the placing of bets and wagers.

Nevada ultimately decided not to pursue involvement with Kenilworth and its proposal. As Nevada and Kenilworth have both acknowledged, the question of legality under the Wire Act is something that is speculative. The DOJ will not provide an advisory opinion to the Commission upon request concerning Kenilworth's proposal. However, there are clues that might shed some light on what might be the Department of Justice's reaction to Kenilworth's proposal. These clues come from the DOJ's commentary about internet gambling, which implicate the status of Wire Act jurisprudence in general.

In testimony before Congressional committees, DOJ personnel have, on more than one occasion, asserted that the Wire Act and other federal laws currently prohibit the operation of internet gambling businesses in the United States.<sup>11</sup>

There is also evidence that the DOJ does not distinguish between the mechanism involved when it considers the propriety of internet gambling. Speaking at a Special Briefing sponsored by the World Online Gambling Law Report in London, England Deputy Assistant Attorney General John G. Malcolm lumped in "gambling by other technologies, such as through interactive television" with on-line gambling when he spoke about the DOJ's concerns about on-line gambling.<sup>12</sup>

The DOJ has also maintained during litigation the position that the three aforementioned federal statutes criminalize interstate internet gambling businesses.<sup>13</sup> In the case before the World Trade Organization ("WTO") against Antigua,<sup>14</sup> the DOJ argued that the 2000 amendment to the Interstate Horseracing Act<sup>15</sup> did not trump the prohibition on such gambling that is provided by the Wire Act and additional federal criminal laws. So, even where there is additional evidence that Congress intended to allow internet gambling in the limited case of horseracing simulcast wagers the DOJ has continued to maintain that the Wire Act applies.

Should Indiana's General Assembly elect to pursue a relationship with Kenilworth or any other entity which would provide similar interactive gaming

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<sup>11</sup> Testimony of John G. Malcolm, Deputy Assistant Attorney General before the Senate Committee on Banking, Housing, and Urban Affairs, Tuesday, March 18, 2003 and before the House of Representatives Subcommittee on Crime, Terrorism, and Homeland Security Committee on the Judiciary, Tuesday, April 29, 2003. Transcripts are available at [www.usdoj.gov/criminal/cybercrime/docs.html#docc](http://www.usdoj.gov/criminal/cybercrime/docs.html#docc). See also attached Exhibit B (a letter dated August 23, 2002 to Dennis Neilander, Chairman, Nevada Gaming Control Board from United States Assistant Attorney General Michael Chertoff regarding the position of the Department of Justice on the applicability of federal law to Internet gambling).

<sup>12</sup> Statement of John G. Malcolm, Deputy Assistant Attorney General at Special Briefing: Money Laundering and Payment Systems in Online Gambling, London, England, available at [www.usdoj.gov/criminal/cybercrime/JGM\\_Intgambling.htm](http://www.usdoj.gov/criminal/cybercrime/JGM_Intgambling.htm).

<sup>13</sup> See The Wire Act, 18 U.S.C. §1084, The Travel Act, 18 U.S.C. § 1952, and 18 U.S.C. § 1955.

<sup>14</sup> United States - Measures Affecting the Cross-Border Supply of Gambling and Betting Services, WT/DS285/AB/R (Apr. 7, 2005).

<sup>15</sup> 15 U.S.C. § 3001, *et seq.*



opportunities, it must take into consideration substantial risk factors associated with the current position of the DOJ and the various interpretations of the evolving status of federal law.

### B. Future Changes to the Legal Landscape

The Commission staff feels that it is fairly likely that the issue of the legality under federal law will eventually be clarified by Congress. Congress has repeatedly considered legislation that would outlaw internet gambling, and presumably would clarify the laws to make them technology-neutral, which would outlaw other means of gambling similar to internet wagering, such as the type of remote wagering via satellite at issue in Kenilworth's proposal.

On the other hand, some speculate that Congress will decide to legalize and regulate these new forms of gambling. This is the approach that has been taken by England.<sup>16</sup> This approach recognizes the reality that there is no way to eradicate interactive gaming. Jurisdictions that legalize internet gambling believe that since it cannot be eliminated, the best tactic is to legalize it so that it can be regulated by states in the same way live gambling is regulated.

Either way, whether Congress acts to legalize interactive gambling, or whether it acts to clarify statutes criminalizing it, the Commission staff speculates that Congressional action would likely be harmful to Kenilworth. If federal legislation serves to legalize various forms of interactive gaming, Kenilworth's proposal will no longer be unique and Kenilworth's theoretical market share will be reduced. Indeed, one of the company's marketing angles is that because Congress appears to be opposed to internet gambling, Kenilworth will corner the market on this method of remote wagering which they believe to be a legal alternative to illegal internet gambling. As has been discussed, the DOJ is presently resistant to internet wagering, and by analogy, other forms of interactive wagering. If the laws are amended to clarify the current DOJ position, the language will most likely eliminate any argument that Kenilworth's proposal is legal under federal law.

### C. Regulatory Approval

Kenilworth's SEC filings acknowledge that Kenilworth faces the challenge of obtaining regulatory approval in each state or jurisdiction in which it does business. In addition, the states receiving the transmissions would have to make appropriate statutory changes to allow their lotteries to offer the option allowing citizens to place bets via the set top boxes on the Indiana game.

The Commission staff is concerned about whether Kenilworth would be able to obtain regulatory approval in other jurisdictions due to the suitability issues outlined below. Notwithstanding suitability issues, the Commission staff sought information from

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<sup>16</sup> Gambling Act, 2005, ch. 19 (Eng.).

Kenilworth regarding their efforts to obtain regulatory approval in other jurisdictions.<sup>17</sup> Regulatory approval would presumably be necessary in each state Kenilworth seeks to do business either as a transmitting state or a state to which Kenilworth proposes to transmit the broadcast. Kenilworth provided the following information about its efforts to obtain regulatory approval in other jurisdictions:<sup>18</sup>

- Kenilworth has engaged lobbyists in Illinois and New Jersey to explore using those states as broadcast sites. Kenilworth lobbyists are working in Illinois and West Virginia to explore the possibility of broadcasting to those states. Kenilworth states that it has “tacit understanding in Mississippi with the casino operators as a group.”
- Kenilworth states that it has an “invitation” from the Mayor of Tinian, Northern Marianas Island, to broadcast from Tinian to the Asian market from new casinos to be built over the next two years.
- Kenilworth informed the Commission staff that although it has obtained tentative approval from the Korean Tourist Bureau in South Korea to broadcast from one of its casinos, due to financial reasons the company is focusing its efforts on the U.S. and European markets.
- Kenilworth states that it has had inquiries from three native American on-reservation casinos to use their facilities as a broadcast site, but Kenilworth says that the locations are not prominent.
- Kenilworth says that it has an inquiry to license an India company for broadcast to India, but India prohibits any type of gambling. Kenilworth says it is not pursuing this inquiry.

Regardless of the technical legal issues and background issues, similar policy considerations exist with Kenilworth’s technology as exist with Internet gaming: both technologies allow casino gambling into the homes of citizens. Even if Indiana does not consider allowing Indiana’s citizens to be end users of the system, other jurisdictions would have to do so in order for Kenilworth to be successful.

If the proposal were to be implemented, it would be challenging for the state to regulate its operation. It appears that Indiana would have to assume a great deal of oversight to ensure that the end-user jurisdictions are operating appropriately. Based on the brochure by Kenilworth and the issues explored by the Nevada Legislature, it would appear that Indiana would have to take steps to dictate the terms under which the transmission would be utilized in the other states to ensure that it would meet Indiana’s standards. This would place a significant burden on the Commission to regulate.

Isolated problems with dealer error arise from time to time at Indiana’s casinos. Casino dealers, although heavily regulated, do make mistakes and commit errors of procedure. These issues are easily resolved by the casino, or with the involvement of the IGC when there are a limited number of patrons playing at a gaming table. If thousands

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<sup>17</sup> See attached Exhibit 3 (a letter from Commission staff to Kenilworth dated June 16, 2005).

<sup>18</sup> See attached Exhibit 1 at 5.

or millions of bets are placed on a single problematic roulette spin, the Commission could receive an overwhelming number of complaints thus risking a tainted reputation.

## **V. Background Issues Related To Kenilworth Systems Corporation**

History of the company: Kenilworth Systems Corporation (“Kenilworth”) is a small company based out of Mineola, New York. According to Kenilworth’s brochure, the company has been a publicly traded company since 1968. Previously, the company was involved in developing systems of cashless wagering. The Company was involved in bankruptcy proceedings in the early 1990s. Since 1998, the company has been involved in development and marketing for Roulabette.

### A. Herbert Lindo:

#### 1. Federal Felony Convictions:

The Commission staff became aware, through a review of Kenilworth’s SEC filings,<sup>19</sup> that Kenilworth’s seventy-nine-year-old president, Mr. Herbert Lindo was convicted of violating federal securities law in 1993. The company’s SEC filings indicate that Lindo “was convicted in 1993 on three (3) counts of having permitted three (3) banks located in the Upper Peninsula of Michigan to sell unregistered, legended, restricted Kenilworth shares pursuant to SEC Rule 144 prior to the bank having the then required two (2) year holding period.” Filings indicate that Mr. Lindo was sentenced to one thousand hours of community service, fifteen months of house arrest and fined six hundred thousand dollars.

A case filed in the United States District Court for the Western District of Michigan, charged Herbert Lindo with five counts in violation of Federal Securities laws. Lindo was charged with four counts of Sale of Unregistered Securities and one count of Conspiracy for Sale of Unregistered Securities. Mr. Lindo was convicted of three felony counts of Selling Unregistered Securities. Mr. Lindo was not convicted of the conspiracy charge. The indictment indicates that Mr. Lindo’s convictions resulted from his involvement in a situation wherein shares of Kenilworth stock were issued to serve as collateral for a loan. The shares were unregistered, legended restricted shares of Kenilworth stock, which, under securities laws in effect at the time, could not legally be sold in the public market unless registered or held for two years. Instead, Lindo allowed and encouraged the bank to believe that the shares could legally be sold. As such, the shares were sold by the bank when the loans came due.

Mr. Lindo appealed the conviction to the U. S. Court of Appeals,<sup>20</sup> which upheld the conviction. Although Mr. Lindo was not initially sentenced by the District Court to serve a prison sentence, a federal appeals court opinion indicates that because of

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<sup>19</sup> SEC filings for Kenilworth Systems Corporation are available at <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000055234&owner=include>.

<sup>20</sup> United States v. Herbert Lindo, 18 F.3d 353 (6<sup>th</sup> Cir. 1994).

probation violations committed by Mr. Lindo immediately after his 1993 conviction, he was sentenced to serve a four-month prison sentence.<sup>21</sup> Mr. Lindo again filed an appeal. Although the Court agreed with Mr. Lindo that the District Court had erred in believing that a prison sentence was mandatory based upon Mr. Lindo's violations, when the case was remanded back to the District Court the imposition of sentence was affirmed. The opinion describes the probation violations committed by Mr. Lindo:

- Mr. Lindo failed to report to his probation agent, within seventy-two hours, the termination of his employment as a consultant with CashTek, Inc. The Court states: "[d]espite the appellant's insistence that his dismissal had been invalid, his firing by the CashTek Board of Directors on December 20, 1993, and his "lock out" on or about January 5, 1994, unquestionably constituted changes of employment circumstances which he should have reported."<sup>22</sup>
- Mr. Lindo violated another condition of his probation by leaving his residence for extended periods of time, thus violating his house arrest.<sup>23</sup>
- Mr. Lindo violated another condition when he refused to provide his probation officer with requested financial documentation, including his personal income tax return. The Court stated: "[a]dditionally, Lindo should have, but did not, report cash receipts and disbursements and other financial transactions conducted through the account of P & J International, Inc., a shell corporation which served as Lindo's alter ego. (Lindo disclosed these receipts and expenditures only after the probation officer inadvertently became aware of a \$12,000 check payable to P & J)."<sup>24</sup>

The court also noted that Lindo had failed to pay any portion of the \$600,000 fine that was imposed pursuant to the District Court's judgment. This was not found to be a violation by the appellate court, however, because the written schedule of the payments had been an agreement with the probation officer, rather than an order from the district court.<sup>25</sup>

## 2. CashTek Corporation

According to an opinion of the Tax Appeals Tribunal of the State of New York,<sup>26</sup> CashTek Corporation ("CashTek") was a company created in February 8, 1991 for the purpose of purchasing the assets of Kenilworth at the time it was involved in a chapter 7 bankruptcy. At the time, Kenilworth had been involved in developing a system of cashless wagering. The opinion in the tax tribunal case discusses Mr. Lindo's involvement with CashTek. The opinion discusses the fact that Mr. Lindo resigned his positions as president, board chairman and treasurer of CashTek after he was convicted in

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<sup>21</sup> United States v. Herbert Lindo, 52 F.3d 106 (6<sup>th</sup> Cir. 1995).

<sup>22</sup> *Id.* at 107.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> In the Matter of the Petition of Mitchell G. Menik, 1999 N.Y. Tax App. Trib. Nos. 815718-9, available at [www.nysdta.org/Decisions/815718.dec.htm](http://www.nysdta.org/Decisions/815718.dec.htm), *aff'd*, Menik v. Roth, 720 N.Y.S.2d 265 (App. Div. 2001).

federal court. Mr. Lindo's son Jeffrey Lindo then became the president and treasurer of the company. In September of 1993 new directors had the company audited; the audit revealed "financial improprieties and shortcomings" in the finances of CashTek. The auditors reported findings to the board in December of 1993. After investigating the problems, the board fired Jeffrey Lindo and "had him physically removed from the offices on January 4, 1994."<sup>27</sup> In January of 1994, the CashTek board sued the Lindos in the Supreme Court of Nassau County seeking reimbursement of over \$3 million dollars. The opinion goes on to state that the Lindos filed counterclaims against CashTek alleging that a press release describing the Board's lawsuit was "issued with malice and ill will and damaged the business reputation of the Lindos."<sup>28</sup> The Commission staff has been unable to obtain additional information about the outcome of this lawsuit and the allegations made against the Lindos. However, this is certainly a matter that would warrant further investigation should it become necessary to subject Kenilworth to a complete background check in the future.

#### B. Implications of Lindo's Suitability on the Suitability of Kenilworth

Arguably, the central focus of the Indiana Gaming Commission's regulation of riverboat gambling operations in the State of Indiana is its charge to protect or enhance the credibility and integrity of gambling operations authorized by statute. Indeed, IC 4-33-1-2 provides the legislative intent for the Riverboat Gambling Act:

This article is intended to benefit the people of Indiana by promoting tourism and assisting economic development. The public's confidence and trust will be maintained only through:

- (1) comprehensive law enforcement supervision; and
- (2) the strict regulation of all facilities, persons, associations, and gambling operations under this article.

The suitability requirements for persons involved in gambling operations in the state are set out in IC 4-33. These requirements are stringent and necessary to ensure that the integrity of gambling operations is preserved. The Commission staff has not gathered from Kenilworth the information necessary to conduct a complete background investigation. However, based upon the information gathered about Mr. Lindo's background, the Commission staff can conclude that the company would not be found suitable.

Kenilworth's 10-K filings acknowledge the impact that Mr. Lindo's convictions have on his likelihood of being found suitable to work in the tightly-regulated casino industry. Kenilworth's 10-K filings state that Lindo "is likely not to be found suitable by any Casino Control Commission or other regulatory body to hold licenses." The 10-K anticipates that Mr. Lindo would resign if licensing became necessary.

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<sup>27</sup> *Id.* at ¶ 19.

<sup>28</sup> *Id.* at ¶ 22.

Indeed, Mr. Lindo's convictions would prevent him from receiving an occupational license under IC 4-33-8. Furthermore, the Commission would not be able to issue a felony waiver to Mr. Lindo under IC 4-33-8-11 due to the nature of his convictions. IC 4-33-8-11(d) provides that "[t]he commission may not waive the requirements of section 3(2) of this chapter for an individual who has been convicted of committing any of the following: (1) A felony in violation of federal law (as classified in 18 U.S.C. 3559)." Also prohibited by IC 4-33-8-11(d) is waiver of "[a] felony of fraud, deceit, or misrepresentation under the laws of Indiana or any other jurisdiction." Although it is a matter of interpretation as to whether a crime is a felony of fraud or misrepresentation, Mr. Lindo's convictions arguably qualify as felonies of fraud or deceit. Indeed, the Appellate Court that considered his probation violations referred to "his conviction on three securities *fraud* counts."<sup>29</sup> (Emphasis added).

The Commission staff acknowledges that while Kenilworth has not submitted an application for a license in this state, to the extent Kenilworth is proposing a partnership with the State, it should arguably meet the minimum requirements for other parties to gaming operations in the state. If the Commission considered Kenilworth's suitability as though it was applying for licensure, Kenilworth would not be found suitable due to Mr. Lindo's felony convictions. IC 4-33-6-3. Kenilworth's proposal would have Indiana entering into a business relationship with Kenilworth for Indiana's receipt of a percentage of the net win of Kenilworth's operations for the next fifteen years. The proposal would also require that Kenilworth contract with one or more of Indiana's riverboat licensees so that the live broadcast could be produced.

More directly, Kenilworth's proposal requires that it contract and partner with at least one of Indiana's riverboats for the transmission of the live gaming images. The Commission's regulations cover the minimum standards that must be met by anyone contracting with riverboat licensees. 68 IAC 1-4-6 states that riverboat licensees shall "perform due diligence to ensure that each person that the riverboat licensee or riverboat license applicant enters into a contract or transaction with meets the requirements set forth in IC 4-33-7-3 and 68 IAC 2-2 [requirements for a supplier license]." Indeed, if Kenilworth would be on a licensee's property regularly, the Commission would require it to be licensed as a supplier. Therefore, under the rules of the Commission, Kenilworth would need to submit for licensure as a supplier. Notwithstanding any other issues, the company would not be found suitable to hold a supplier's license due to Mr. Lindo's convictions.

Kenilworth's SEC filings indicate that Mr. Lindo would not remain in his position as president and Chairman of the Board if the company obtained a contract to do business. Mr. Lindo has stated that he would be willing to place his shares into a voting trust, and resign from his position as chairman of the board. However, pursuant to the Commission's statutes and regulations, Mr. Lindo's resignation would not solve Kenilworth's suitability problems. Pursuant to the Commission's regulations, a key person is defined as "an officer, director, trustee, partner, proprietor, or managing agent of, or an individual who holds any direct, indirect, or attributed legal or beneficial interest

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<sup>29</sup> United States v. Herbert Lindo, 52 F.3d 106 (6<sup>th</sup> Cir. 1995).

whose combined direct, indirect, or attributed interest is five percent (5%) or more in a business entity.” Even if Mr. Lindo gave up his control over the company, he has not indicated that he would be willing to give up his beneficial ownership.

### C. Financial Suitability of the Company

Kenilworth has been in business since 1968. The company’s prior operations involved the development of a system for cashless wagering. The Company emerged from Bankruptcy in 1998. An examination of financial information contained in SEC filings indicates that Kenilworth has virtually no equity or liquidity. The company has not had any revenue since it emerged from Bankruptcy, despite increasing expenses. Kenilworth’s 2004 Annual Report Form 10-K/A contains a report of the company’s independent registered public accounting firm. The statement reads, in part: “[a]s more fully described in Note 1 to the consolidated financial statements, the Company has incurred operating losses since its inception as a development stage company for the period beginning November 24, 1998, which raises substantial doubt about its ability to continue as a going concern.”

The company is a development stage company, whose sole purpose is the development of Roulabette. Kenilworth cites many risk factors the company faces going forward, including whether or not it can obtain funding and regulatory approvals. The company’s stock is traded on the pink sheets; it is a penny stock. It is important to say that Kenilworth acknowledges its current financial situation; the company maintains that once it obtains a contract with a jurisdiction to do business, its investors will provide the necessary backing to make it a viable company.

The research and development does not appear to have been completed for Roulabette. In Kenilworth’s 2004 annual report, in listing risk factors, Kenilworth states that “[i]n order to commence to develop the Roulabette terminal and the Roulabette broadcasts, we estimate at this time, that we will need at least approximately ten million dollars (\$10,000,000).” The company acknowledges that it has no agreements or understandings to procure the money. Even if it receives the ten million it needs for development, the report states that “substantial additional funds” would be needed for a marketing plan.

Despite the fact that Kenilworth states in its 10-K filings that Mr. Lindo would resign if the company obtained a contract to do business, the company has also indicated that Mr. Lindo is necessary for the successful operation of the business. As such, Kenilworth appears to be in somewhat of a Catch-22 with respect to Mr. Lindo. Mr. Lindo’s involvement in the company is a substantial obstacle for the company’s licensability and credibility with respect to any gaming regulator. However, Kenilworth continues to insist that Mr. Lindo’s involvement in the company is necessary to the company’s success. Based upon the July 27, 2005<sup>30</sup> letter from Mr. Andrew Hirko, Kenilworth’s President, to the Indiana Gaming Commission, it appears that Kenilworth

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<sup>30</sup> See attached Exhibit 4.

believes that its efforts to obtain financing for the \$100 million guarantee relies on the continued involvement of Mr. Lindo. Should the State of Indiana decide to enter into a relationship with Kenilworth, it will also ultimately have to decide the nature and extent of Mr. Lindo's involvement in the company, if any.

#### D. SEC Compliance Issues

Kenilworth's preliminary proxy statement dated July 19, 2005 indicates that Kenilworth's Executives have failed to file their disclosures under Section 16(a) of the Securities act of 1934. This regulation requires executive officers and directors and beneficial owners over 10% to file initial reports of ownership and changes in ownership. As of July 19, 2005, none of the Executive Officers and Directors of Kenilworth were in compliance with this requirement.

Additionally, Kenilworth was also recently ordered by the SEC to restate its financials for the past 5 years as a development-stage company.

#### E. Other Regulatory Concerns

In May of this year, the commission was told that Mr. Lindo had resigned. In a meeting with Commission staff on June 6, 2005, company representatives stated that Mr. Lindo had resigned on April 11, 2005. In a letter dated July 11, 2005,<sup>31</sup> in response to the Commission's request for information, Mr. Hirko stated that Mr. Herbert Lindo had resigned and was now an advisor to Kenilworth. The letter stated that if Kenilworth was unable to secure a contract with Indiana, Mr. Lindo would run as a prospective Director at the next annual meeting of shareholders. However, in a July 27, 2005<sup>32</sup> letter, Mr. Hirko informed the Commission that "in [Kenilworth's] Preliminary Proxy Statement on FORM 14A filed with the SEC on July 21, 2005, we left Mr. Lindo as the Chairman of the Board . . ." Kenilworth argues that it made this decision because it believes that Mr. Lindo's involvement is necessary in order to secure the \$100 million loan from the European Bank. The Commission staff is therefore unsure exactly what Mr. Lindo's status with the company has been at each point since April 11, 2005 to the present.

The Commission staff requested various things from Kenilworth in order to evaluate the feasibility of the proposal and the suitability of the company for the purpose of this report. The Commission found that Kenilworth did not submit some of the requested information. The Company's failure to provide the requested information made it difficult for the Commission staff to complete its evaluation. With respect to much of the information, Kenilworth stated that it would agree to provide the information once the Commission or the State entered into a contract. The following is a list of the requested information along with Kenilworth's responses:<sup>33</sup>

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<sup>31</sup> See attached Exhibit 1 at 4.

<sup>32</sup> See attached Exhibit 4.

<sup>33</sup> See attached Exhibit 1.



- Request: As has already been discussed, the Commission staff sought detailed information about the operational and technological function of Roulabette.  
Response: Kenilworth refused to provide this information citing confidentiality concerns regarding its patent.
- Request: The Commission staff requested information about Kenilworth's stockholders having a 1% beneficial ownership interest in Kenilworth.  
Response: Kenilworth responded that it has "no rights or obligations to disclose the stockholding of our Shareholders unless they are "insiders," such as Officers and Directors or if they own in excess of ten percent (10%) of the total number of shares outstanding, which has to be reported by the individual or corporation that owns the shares, in separate filings with the SEC." Kenilworth said that it would agree to provide the information if approval is obtained from Indian for the proposed live game broadcast.
- Request: The Commission staff requested a copy of Kenilworth's business and financial plan.  
Response: Kenilworth stated that it intended to federal express a copy of its business plan to the Commission staff in a letter dated July 11, 2005.<sup>34</sup> In a letter dated July 14, 2005,<sup>35</sup> Kenilworth represented that it was finalizing its business plan which it intended to make available to the Commission shortly thereafter if the Commission staff would agree to keep "a proprietary technical protocol" confidential. Alternatively, Kenilworth suggested that they would delete any proprietary information and provide the public version. Despite the fact that the Commission staff responded on July 14, 2005<sup>36</sup> stating that it would like to receive only the disclosable information from the plan, Kenilworth never provided a copy of that business plan.
- Request: The Commission staff requested information about the bond company that would cover the \$100 Million security guarantee.  
Response: Kenilworth stated that it would "disclose the identity of the Guarantor, the lending bank, the security issuing bank (if different), and any side agreements between Kenilworth, the Guarantors and/or the bank(s)" upon written approval by the Commission of Project Roulabette.

The Commission staff believes that it would be impossible to enter into a contract with any company prior to having reviewed the requested information and any other information deemed necessary.

Shortly after the Indiana Legislature passed Enrolled Act 1120, which contained the request for this report, Kenilworth released a press release. The press release contained the following statement: "[t]he Company expects the first of several television simulcast casino broadcasts to originate from an Indiana, U.S.A. Riverboat casino, subject to final approval by the Indiana Gaming Commission, which is expected." Commission staff felt that this statement was misleading as to the nature of the Commission's inquiry and the level of authority afforded to the Commission in this

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<sup>34</sup> See attached Exhibit 1 at 2.

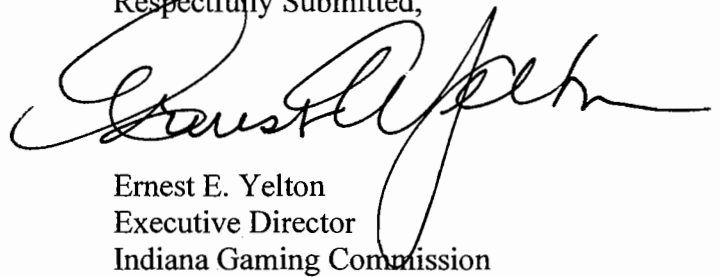
<sup>35</sup> See attached Exhibit 5.

<sup>36</sup> See attached Exhibit 6.

circumstance. The Commission staff asked Kenilworth to remove the press release from its website. Kenilworth thereafter amended its statement.

Finally, the Commission staff has made inquiries to determine the level of interest among Indiana's riverboat licensees to participate in Kenilworth's proposal as a host site. The unanimous response was "no."

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ernest E. Yelton", written in a cursive style. The signature is positioned above the printed name and title.

Ernest E. Yelton  
Executive Director  
Indiana Gaming Commission

# **KENILWORTH**

SYSTEMS CORPORATION

Andrew Hirko  
Senior Vice President

Phone: (516) 741-1352  
Facsimile: (516) 741-7194

July 11, 2005

Ms. Jennifer L. Chelf  
Director of Compliance  
Indiana Gaming Commission  
National City Center  
115 W. Washington Street  
South Tower, Suite 950  
Indianapolis, IN 46204-3408

Via: E-Mail

Dear Ms. Chelf:

Before we reply to your questions, we wish to bring you up to date since our horizon has been substantially enlarged since Alfred J. Luciani, Esq. has joined our Firm.

Our offer to Indiana is two and one half percent (2.5%) of Kenilworth's net win before deducting expenses from worldwide operations with an annual cap of one billion dollars (\$1,000,000,000) for a period of fifteen (15) years. Should Kenilworth broadcast from a major Indian casino, we would like to make the State of Indiana aware of the potential benefit the State may receive for being the first to offer the simulcast of live, in-progress casino table game action from one of their riverboat casinos.

Previously we have been involved in negotiations with BSKYB in London, England, which is thirty-seven percent (37%) controlled by Mr. Rupert Murdoch's News Corp., to provide live in-progress casino table game action to be broadcast using their England/Ireland gaming platform.

The U.S. Justice Department's restriction on supplying gaming information via International Commerce Regulations prevented Kenilworth from exporting gaming information from the United States, even if approved from Indiana. (U.S.C. Title 18 subsection 1084 sub [b] [d]).

Supplying the same gaming information from a Native American on-reservation casino such as Foxwoods, the world's largest and most profitable casino, or Mohegan Sun Casino, another very profitable casino almost equaling Foxwood's profits, **will not be in violation of the International Commerce Regulations.**

Kenilworth is assured the possibility of broadcasting from either the Foxwoods or Mohegan Sun casinos because Mr. Luciani's has joined Kenilworth. Mr. Luciani supervised the construction of Foxwoods and was their Chief Executive Officer.

Mr. Luciani's relationship with the Malaysian Group which financed Foxwoods in 1992 maintains their interest in his dealings.

Further, with the present craze for poker tournaments, which TV viewers only can watch on taped television shows, we will offer live in-progress **casino table game tournaments**, which are covered by our Patents. The difference is that digital satellite and digital cable subscribers throughout the industrialized world, will be able to wager along and participate with the live tournament.

"PartyGaming" completed a U.S. \$3.0 billion Initial Public Offering (IPO) for twenty percent (20%) of the equity. In their prospectus PartyGaming stated that ninety percent (90%) of their players that wager with their poker website, via the Internet, are U.S. resident, where Internet gambling is prohibited. As one Securities House stated, PartyGaming investors are betting that the Justice Department cannot control illegal Internet gaming. In time, they will.

Yesterday, a buyer offered \$700 million to buy out WPTE (World Poker Tour Enterprises), an entity that provides taped and edited poker tournaments, the current TV sensation. Kenilworth's live, in-progress legal gaming will eventually wipe out virtual gaming. Why would anyone want to play along with an unregulated, virtual "make believe" game when they can play along with a live, in-progress casino table game? Our live games should eventually wipe out all overseas websites.

We will Federal Express you the following exhibits by the end of this week:

- (a.) a copy of our Business Plan
- (b.) a copy of our Proxy Statement (Form 14A) for our planned 2005 Shareholders' Meeting to be held on or about August 23, 2005
- (c.) a copy of our Restated Financials for the years from November 24, 1998 to December 31, 2004. As ordered by the SEC, we have restated our financials as a "Development Stage Company". This has proved to be a very time consuming project.

**1.** This information is taken from our 2005 Proxy Statement:

Name	Age	Position	First elected Director of Kenilworth
Herbert Lindo	80	Chairman of the Board, President, Treasurer and Chief Financial Officer	1972
Gino Scotto	35	Director and Chief Executive Officer	2002
Maureen Plovnick	38	Director, Secretary and Vice- President	2002
Kit Y. Wong	77	Director	1999
Patrick J. McDevitt	64	Director	2001
Joyce D. Clark	69	Director	1998
Paul Nusbaum	54	Director	----

Herbert Lindo has been President, Treasurer and Chief Financial Officer of Kenilworth since 1972. Since Kenilworth's emergence from bankruptcy, he has also served as Chief Executive Officer until July 17, 2002 when Gino Scotto was elected to that office. Mr. Lindo devotes his full time to the business of the Registrant.

Gino Scotto has been the financial officer of Scotto Brothers a national hospitality, restaurant and hotel owner/operator for over the past five (5) years. He resigned from Scotto Brothers in May 2002 but currently owns and operates the Westbury Manor, a restaurant/catering facility in New York as well as Five Star Beverages, a wine and spirits importer. He was elected a Director and Chief Executive Officer on July 17, 2002. Mr. Scotto devotes only part of his time to the business of the Registrant.

Maureen Plovnick was elected Secretary in August 2001 and a Director in October 2002. Mrs. Plovnick is a 1989 graduate of Fordham University and holds a Bachelor of Science degree in Marketing with minors in both Psychology and Sociology. Before joining the Company, Mrs. Plovnick was employed in retail marketing by Fortunoff and The Hyman Companies. Mrs. Plovnick devotes her full time to the business of the Registrant.

Kit Y. Wong has served as a Director of Kenilworth since 1999. He is part owner and operator of several Chinese restaurants in the New York metropolitan area. Mr. Wong devotes only a limited portion of his time to the business of the Registrant.

Patrick J. McDevitt has been a licensed representative for Shukla Financial Services and First Securities Investments until June 2003 when he formed a private entity with his wife, Linda McDevitt, in the accounting field. Mr. McDevitt devotes only a limited portion of his time to the business of the Registrant.

Joyce D. Clark has served as a Director of Kenilworth since 1998. She served as controller of Long Island Wholesalers Inc., a wholesale door manufacturer from 1991 until 2002 when she moved to Maryland. Joyce D. Clark is the ex-wife of Herbert Lindo. They divorced in 1980. Mrs. Clark devotes only a limited portion of her time to the business of the Registrant.

Paul L. Nusbaum served as the Cabinet Secretary for the West Virginia Department of Health and Human Resources from January 17, 2005 until January 17, 2005 and was responsible for the entire operation of that government agency with its \$2.5 Billion Budget and over 5,700 employees. Mr. Nusbaum currently provides professional management consulting services to a small group of health care clients and manages his personal private real estate holdings. Mr. Nusbaum devotes only a limited portion of his time to the business of the Registrant.

Kenilworth does not have a nominating committee. The nominees chosen were approved by the existing Board of Directors. Since Kenilworth is in its Development Stage and due to Kenilworth's limited financial resources and ability to attract other nominees, the Board of Directors, under all of these circumstances believes that it is appropriate for it to consider nominees to the Board of Directors of Kenilworth.

Only Herbert Lindo, Gino Scotto and Maureen Plovnick are considered Executive Officers.

Andrew Hirko, Mr. Lindo's grandson, joined the Company on February 1, 2004. He is a graduate from Stony Brook University and holds a B.S. in Economics. Mr. Hirko devotes his full time to the business of Kenilworth.

Christopher Jenkins is the stepson of Mr. Lindo. He joined the Company on February 1, 2004. He is a graduate with honors from Pratt Institute. He is continuing his studies for his Master's Degree. Mr. Jenkins devotes his full time to the business of Kenilworth.

Maria Malizia is the Company's receptionist. She joined the Company in March, 2005.

2. We have no rights or obligations to disclose the stockholding of our Shareholders unless they are "Insiders", such as Officers and Directors or if they own in excess of ten percent (10%) of the total number of Shares outstanding, which has to be reported by the individual or corporation that owns the Shares, in separate filings with the SEC. If we obtain approval from Indiana for the proposed live game broadcast, we will ask the individuals who own one percent (1%) or more if they voluntarily wish to disclose their holdings to the Commission.

Mr. Herbert Lindo has resigned and is now an Advisor to Kenilworth. In the event we are unable to secure a contract with Indiana, he will run as a prospective Director at our next Annual Meeting of Shareholders. He is named as a proposed Director in our 2005 Proxy Statement. If Herbert Lindo is unavailable, his son Jeffrey Lindo, a former Director and Chief Executive Officer of Kenilworth before 1991, will take his place.

At the 2005 Shareholders Meeting, Kenilworth expects that a majority of the outstanding Shares voted by the Shareholders will approve an Amendment of Kenilworth's Certificate of Incorporation to increase the authorized number of Shares of Common Stock to 500,000,000 Shares. Until now, Mr. Lindo has asked not to have a total of 45,000,000 Shares due to him issued to him. After the 2005 Shareholders Meeting, he will most likely request to have the Shares issued to him. Presently the Company has 148,000,000 Shares issued and outstanding, with 15,000,000 Shares reserved for Stock Options, none of which have been exercised.

It would be impossible to issue the 45,000,000 Shares to Mr. Lindo since it would exceed the present authorization of 200,000,000 Common Shares. By his action to decline to have the 45,000,000 Shares issued until they are available, he voluntarily is permitting the Company to obtain additional capital, as needed. Mr. Lindo also has an option of 5,000,000 Shares pursuant to the Company's Option Plan, which he also has not as yet exercised.

Mr. Lindo has stated to the Commission that should Indiana approve the broadcast, he would place his Shares, when issued, in a "Lock Box". This would prevent Mr. Lindo from selling any of his Shares in an underwriting or as per a separate agreement with an appointed trustee. Mr. Lindo is the largest Shareholder and it is in his best interest to help Kenilworth.

3. Some of the detailed information requested is very, very confidential. We have Patents that give us a license to sue potential violators. Patents do not protect confidential information on how a system operates technically. They would give potential competitors an advantage to invent a method that may avoid our Patents. It is not done in any industry.

At this time we have no plans to use kiosks. The set-top boxes for satellite and cable distribution will convey the game results via a private data communication with the Lottery Data System, either via telephone connection or intra data communication. The Lottery Data System then tracks the wagering, and manages the wagering activities on its own Data System. This is the very reason we are sharing our net win with the lotteries (and others) since it would be impractical for Kenilworth to establish a similar tracking system when the lotteries have the required system available. Ninety-five percent (95%) of all lotteries around the world use an identical system, although

provided from different software suppliers. The Patents provide a very graphic presentation of the applicable technology. Practical experience, while installing the communication system, will dictate how best to interconnect the various components of the systems. This is a newly invented system, but the technology required for the software and communication is well known and no new breakthrough is required.

4. A copy of the financial plan will be included in the exhibits.

5. The Business Plan describes cash flow without identifying the proposed sources because we cannot make agreements with any **proposed entity that will accept the system** until we can positively state that Kenilworth has a broadcast site. First, we require the broadcast site, preferably demonstrate how the test system operates to prospective users and then actually deliver the final product to the future sites Kenilworth will solicit. This is the very reason Kenilworth is willing to guarantee future results up to \$100 million.

Roulabette™ is new, and there are no existing systems to it compare with. We will be going forward together with the IGC, and as a reward for your efforts and cooperation, we will be sharing our worldwide profit for fifteen (15) years, whether or not we will always broadcast from an Indiana riverboat. In conjunction with Indiana we will set our target for casinos like Foxwoods or any well recognized Vegas Strip casino.

6. In Illinois, we have engaged former Senator Denny Jacobs as our lobbyist to explore potential broadcast sites and offer the wagering to Illinois residents. In New Jersey, former Senator James Dugan is lobbying on Kenilworth's behalf to secure a broadcast site. In West Virginia, Mr. Cody Starcher is lobbying for the possibility of broadcasting to horse and dog racetracks within his State. We have tacit understanding in Mississippi with the casino operators as a group. In all of the states except New Jersey, the State Legislature have finished their 2005 session, therefore it is unlikely that anything positive will happen until 2006.

We have an invitation from the Mayor of Tinian, Northern Marianas Island, whom we visited three (3) times in the past year, to broadcast from Tinian to the Asian Market from new casino resorts to be built over the next two (2) years. Tinian has been designated an Authorized Destination Status (ADS) by the People's Republic of China (PROC).

Essentially the ADS provides FREE travel by PROC citizens to the Island of Tinian without the traveler being required to have a visa or being pre-approved for outbound travel by the PROC Government. This is a huge accomplishment for Tinian as it is the only U.S. area in the region with that designation. Guam, Hawaii, California, etc. do not have this "favored nation" tourism travel designation.

Basically, Tinian is the only U.S. Gaming Jurisdiction with access to over 20 million outbound Chinese Tourists per year. This number is expected to triple by 2007.

We have tentative approval from the Korean Tourist Bureau in South Korea to broadcast from one of their casinos. The Bureau has the ability to issue such permits. This is a positive step for Kenilworth but due to financial reasons, we are presently concentrating our efforts on the U.S. and European markets.

We have had inquiries from three (3) Native American on-reservation casinos to use their facilities as a broadcast site. Unfortunately these locations are not nearly as prominent as either Foxwoods or Mohegan Sun.

Also we have an inquiry to license an India company for broadcasts to India. At the present time India prohibits any type of gambling. These are inquiries only and we are in no way actively pursuing them.

7. There are forty-one (41) States that have lotteries. There are in the U.S. 90,000,000 satellite and cable subscribers, 170,000,000 in Asia and more than 105,000,000 in the European Economic Community countries, including Russia. There are over 400,000,000 cable and satellite subscribers around the industrialized world. Within the next five (5) years, they all could potentially become Roulabette™ customers.

8. The only focus group response we have is from the Sorbonne University in France, which simply commented on our invention two (2) years ago. All of this will happen when we begin demonstrating our system.

9. The details of the \$100 million Financing are:

#### **Kenilworth Systems Corporation Loan Financing**

Upon entering into a definitive contract with the Commission for the Riverboat broadcasts, which contract will be subject to **Kenilworth delivering a suitable, irrevocable**, \$100 million security guarantee acceptable to the Commission.

Kenilworth, through an intermediary, will request from long time business associates of Kenilworth, (herein referred to as the "Guarantors"), a guaranteed loan of \$100 million to Kenilworth from a bank with the loan, to be repaid by Kenilworth from revenue earned from the broadcasts, from the proceeds of a proposed planned underwriting and the sale of pledged Kenilworth securities. The repayment of the loan will occur no later than three (3) years from the date of the guarantee.

As consideration for making the loan guarantee, Kenilworth will cause to be issued ten million (10,000,000) Shares (plus or minus) of its Common Stock par value \$.01 per share (the only securities Kenilworth has outstanding) to the Guarantors who will use the Shares as collateral by having the Shares issued in the name of the lending bank.

The Shares, when issued, will not be registered under the Securities Act of 1933, as amended, or the Securities Laws of any other jurisdiction and may not be offered or sold in the United States absent of registration or an applicable exemption from the registration requirements. Kenilworth and the Guarantors believe Hedge Funds will eventually purchase some or all of the Shares from the bank and Guarantor.

In a separate agreement between the Guarantor, the bank and Kenilworth, a number of the Shares, which will be determined by the progress of Project Roulabette™, will be sold by the bank and credited toward the reduction of the loan, with the balance of the Shares inuring to the Guarantor.



The security will be delivered to the Commission or the Fund with interest accruing to June 1, 2007 to be credited to the Guarantor and payable to the bank toward the interest payable by Kenilworth.

Any payments received by the Commission or the Fund as the result of the broadcasts through June 1, 2007 will be paid to Kenilworth when the security for the guarantee is "cashed out" by the Commission or the Fund.

The Commission or the Fund will accept the security from a reputable bank, similar in stature to the Union Bank of Switzerland, which bank may also be the bank that is making the loan to Kenilworth. (The spread of the interest payments between the loan and the security may then only be about one half of one percent (0.5%), or five hundred thousand dollars (\$500,000) on an annual basis, which is payable, in advance, by Kenilworth. The interest amount will be added to the loan amount.)

As soon as practical, upon the written approval by the Commission of Project Roulabette™, Kenilworth will disclose the identity of the Guarantor, the lending bank, the security issuing bank (if different), and any side agreements between Kenilworth, the Guarantors and/or the bank(s).

The intermediary will be paid a fee by Kenilworth.

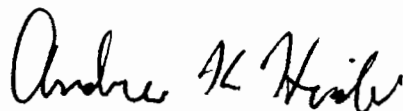
There are four hundred million satellite and cable subscribers in the industrialized world:

U.S. Subscribers	90,000,000
European Economic Community Countries including Russia Subscribers	105,000,000
Asian Subscribers	180,000,000
Egypt, Greece, Turkey and others	<u>25,000,000</u>
<b>Total:</b>	<b><u>400,000,000</u></b>

If only thirty percent (30%) of all available satellite and cable subscribers participate and wager with Roulabette™, 120,000,000 subscribers would wager, according to existing statistics from BSkyB (\$3,200 annually) they would wager \$384 billion dollars annually. By the year 2010, the natural increase of satellite and cable subscribers, **together with inflation** will reach a \$500 billion dollar net win market.

Sincerely,

**KENILWORTH SYSTEMS CORPORATION**

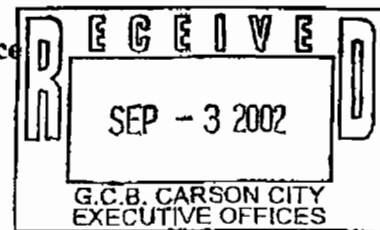


Andrew Hirko, Senior Vice President



U.S. Department of Justice

Criminal Division



Assistant Attorney General

Washington, D.C. 20530

August 23, 2002

Exhibit 2

Mr. Dennis K. Neilander, Chairman  
Nevada Gaming Control Board  
P.O. Box 8003  
Carson City, Nevada 89706

Dear Chairman Neilander:

Your office recently spoke to Mr. Matthew Martens, who is the Criminal Division's Chief of Staff to the Assistant Attorney General, regarding the application of federal law to Internet gambling and the article on Internet gambling in Nevada that was prepared by Mr. Jeffrey R. Rodefer, who is an Assistant Chief Deputy Attorney General for the Nevada Attorney General's Office. The Criminal Division was recently informed by the Department of Justice's Office of Intergovernmental Affairs that your office is also requesting a written response.

As a general rule, the Department of Justice is limited by statute to providing legal advice within the federal government and the Criminal Division does not issue advisory opinions with respect to the legality of specific gambling operations. This allows the Department to defer the resolution of legal questions until it is confronted with a concrete situation requiring action in a judicial forum.

We may, however, provide general guidance as to relevant statutory provisions that are applicable to Internet gambling. As set forth in prior Congressional testimony, the Department of Justice believes that federal law prohibits gambling over the Internet, including casino-style gambling. While several federal statutes are applicable to Internet gambling, the main statutes are Sections 1084, 1952, and 1955, of Title 18, United States Code. As stated in Mr. Rodefer's article, Section 1084 of Title 18, United States Code, prohibits one in the business of betting or wagering from knowingly using a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers. Section 1952 of Title 18, United States Code, prohibits traveling in interstate or foreign commerce, or using the mails, or using a facility in interstate or foreign commerce with intent to distribute the proceeds of an unlawful activity or otherwise promoting, managing, establishing, carrying on, or facilitating the promotion, management, establishment, or carrying on, of any unlawful activity and thereafter performing or attempting to perform such act. The term "unlawful activity" is defined in Section 1952(b) to mean "any business enterprise involving gambling . . . in violation of the laws of the State in which they are committed or of the United States." Section 1955 of Title 18, United States Code, prohibits illegal gambling businesses, which involve 1) a violation of state law, 2) five or more persons who conduct, finance, manage,

supervise, direct, or own all or part of such business, and 3) a business that has been or remains in substantially continuous operation for a period in excess of thirty days or has a gross revenue of \$2000 in any single day. In addition to criminal convictions, Section 1955 can be used to seek civil forfeiture of gambling proceeds. See United States v. \$734,578.82 in United States Currency, 286 F.3d 641 (3d Cir. 2002). Moreover, the federal money laundering statutes are applicable to unlawful Internet gambling businesses. Additionally, it is the Department's view that the gambling activity occurs both in the jurisdiction where the bettor is located and the state or foreign country where the gambling business is located.

I trust that this is responsive to your inquiry. Please do not hesitate to contact us if we can be of any further assistance in this or any other matter.

Sincerely,



Michael Chertoff  
Assistant Attorney General

**INDIANA GAMING COMMISSION**

SOUTH TOWER, SUITE 950  
115 W. WASHINGTON STREET  
INDIANAPOLIS, IN 46204-3408



**Ernest E. Yelton**  
*Executive Director*

TELEPHONE (317) 233-0046  
FAX (317) 233-0047  
[www.in.gov/gaming](http://www.in.gov/gaming)

June 16, 2005

**VIA FACSIMILE (516) 741-7194**

Mr. Andrew Hirko  
Senior Vice President  
Kenilworth Systems Corporation  
185 Willis Avenue Suite 4  
Mineola, NY 11501

Dear Mr. Hirko:

Thank you for providing the requested information about the recent legislation in Great Britain. The Indiana Gaming Commission ("Commission") requests that Kenilworth submit the following information, which we feel will help us more thoroughly understand Kenilworth's operations and its proposal:

1. A description of Kenilworth's corporate structure, including a list of all key persons, employees, and their titles and job descriptions.
2. A list of the stockholders or other persons having at least a one percent (1%) beneficial interest in Kenilworth Systems Corporation. Also, please provide a detailed explanation of Herbert Lindo's former, current and expected status, both in terms of ownership interest and involvement with the company.
3. An Executive Summary that thoroughly explains the operational and technological function of each component of Kenilworth's proposal, including, but not limited to the following: operation of the set top boxes or kiosks; how the set top boxes or kiosks communicate data with lotteries; the satellite transmission; and any other such operational function upon which Kenilworth's proposal depends. Please include written and/or graphic representations of the applicable technology. The Commission staff desires to thoroughly understand how your system functions.
4. A detailed Executive Summary outlining Kenilworth's business and financial plan both with respect to Indiana, and world wide. In addition, the Commission staff would like to know specifically how Kenilworth plans to finance the growth of company.
5. The Commission staff needs to gain a precise understanding of the cash flow involved in Kenilworth's proposal. Please provide an executive summary that identifies the revenue sources and distributions throughout each phase of the project. The summary should specifically outline the proposed payments to Indiana, the sources of those monies and the length of Kenilworth's relationship with the state of Indiana. Also, please include a

detailed description of the relationship Kenilworth would have with any other parties to the proposal, and the amounts and the means of compensation to each. Such entities would include: Indiana, other jurisdictions' lotteries; casinos that agree to transmit the signal; horse tracks; Kenilworth Systems Corporation; and any other parties that will benefit from the Kenilworth's operation, regardless of whether that entity is associated with receiving or transmitting the satellite images. The IGC is trying to fully understand which entities pay which other entities under Kenilworth's plan.

6. A list of other jurisdictions that have considered or are considering entering into a relationship with Kenilworth and whether or not legislation has been introduced in those states. Please specifically describe the status of negotiations, legislation, licensing, and/or authorization to do business with any other jurisdictions in which Kenilworth expects to do business, regardless of whether that jurisdiction is expected to receive or transmit satellite images.
7. A detailed description of the factual basis for your current estimates regarding the percentages of cable markets who will want to subscribe to this type of service.
8. Please detail any plans Kenilworth has to conduct a separate detailed analysis of the potential market for Roulabette, for example, focus groups or other studies. Please submit any available data or research into the desirability of Roulabette over internet gaming.
9. Please submit information about the bond company that will cover the initial \$100 million dollar commitment to Indiana and a copy of the letter of intent if it is available.

As we discussed last Monday, the Commission has a limited time frame in which to study alternative forms of gambling given that the report is due by October 1, 2005. As such, please provide the above requested items as they become available. Please submit all items no later than June 30, 2005.

Sincerely,



Jennifer L. Chelf  
Director of Compliance

cc: Tony Armstrong, Deputy Director, State Budget Agency

# **KENILWORTH**

SYSTEMS CORPORATION

Andrew Hirko  
Senior Vice President

Phone: (516) 741-1352  
Facsimile: (516) 741-7194

July 27, 2005

Ms. Jennifer L. Chelf  
Director of Compliance  
Indiana Gaming Commission  
National City Center  
115 W. Washington Street  
South Tower, Suite 950  
Indianapolis, IN 46204-3408

Via: E-Mail and USPS

Dear Ms. Chelf:

In Kenilworth Systems Corporation's Preliminary Proxy Statement on FORM 14A filed with the SEC on July 21, 2005, we left Mr. Lindo as the Chairman of the Board for the following reasons:

Mr. Lindo, in order to have the C.D. for \$100,000,000 available for the Guarantee, went ahead and made final arrangements with his Guarantors and the Bank. He wrote to all the Directors on July 26, 2005 and stated:

"I will resign from Kenilworth IF Indiana accepts our plan and becomes the FIRST to approve live game broadcasts from one (1) of their Riverboats. We will advise the Indiana Gaming Commission that if we are to provide a guaranteed CD for \$100,000,000 I must remain the Chairman of Kenilworth, in order to complete the three (3) year loan from a European Bank. They have excellent experience with me. We provided the Gaming Commission with all the details and offered to identify the Guarantors for the loan, if they agree to enter into a contract with us SUBJECT to Kenilworth providing an acceptable CD to the Indiana Gaming Commission.

The Gaming Commission has until October 1, 2005 to make the recommendation to the State Legislature. If all goes well, we would not be able to consummate **anything** until after January 1, 2006, when the Legislature returns. By the time we can commence testing on how to interface the broadcasts with the State Lottery, we will NOT HAVE ANY REVENUE from operation when the CD becomes due June 1, 2007.

My arrangement for the three (3) year loan is: \$100,000,000 plus interest for the three (3) year period payable, principal and interest, at the end of the period, which makes it a **\$103,000,000 loan and a huge net liability on our balance sheets** without Kenilworth having the opportunity to earn any revenue from an Indiana contract, before the CD

has to be paid. This might hinder our financial standings with future manufacturers of our equipment.

We would like Indiana to be the first State to provide the live game transmission. We have other states and even countries that wish to be second. What is necessary is a preliminary contract RIGHT NOW which gives us the opportunity to start negotiations for a Riverboat, make the necessary camera installations and install the up and down link satellite dish antennas approximately 1 ½ miles away from the Blue Chip Riverboat Casino and Hotel owned by Boyd, if that becomes our broadcast site. We could use a rented satellite communication truck until the permanent satellite links are installed, which, over a short time, will cost as much as the dish installation.

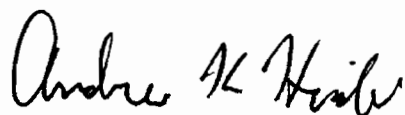
We are in **very preliminary** telephone discussions with BSKYB after we notified them of AI's presence. Sky began pushing virtual casino games on their gaming platform in March when Parliament "Okayed" remote wagering, with huge success. We will have to convince SKY that when we start broadcasting live, their success may diminish.

There are 115,000,000 satellite subscribers in the European Economic Community, with 170,000,000 cable subscribers, against Sky's 7,300,000 subscribers. We will explain to SKY that we may have to offer exclusivity to European satellite broadcast providers, which may lock out SKY. There are only 24,000,000 satellite and 80,000,000 cable subscribers in the U.S. The count for Asia is 185,000,000 for both satellite and cable. The Americans are still virgin."

Mr. Lindo spoke with each Director individually. The consensus of the Directors was that Mr. Lindo should proceed with Kenilworth's present financing plan in order to obtain the loan needed for the Indiana Guarantee.

Sincerely,

**KENILWORTH SYSTEMS CORPORATION**

A handwritten signature in black ink, appearing to read "Andrew Hirko". The signature is fluid and cursive, with the first name "Andrew" and last name "Hirko" clearly distinguishable.

Andrew Hirko, Senior Vice President

# **KENILWORTH**

SYSTEMS CORPORATION

Andrew Hirko  
Senior Vice President

Phone: (516) 741-1352  
Facsimile: (516) 741-7194

July 14, 2005

Ms. Jennifer L. Chelf  
Director of Compliance  
Indiana Gaming Commission  
National City Center  
115 W. Washington Street  
South Tower, Suite 950  
Indianapolis, IN 46204-3408

Via: E-Mail and USPS

Dear Ms. Chelf:

We are finalizing our Business Plan (the "Plan"), which we will make available to the Gaming Commission shortly. The Plan discloses proprietary technical protocol which requires Kenilworth to ask all recipients of the Plan to acknowledge that they will not disclose the information, which is not in the public domain.

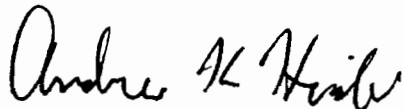
We are enclosing a Confidentiality Agreement and would like to know whether or not the individual members of the Commission will be allowed to sign the Agreements on behalf of the Commission. If the answer is negative, we will delete any information that we deem proprietary. If it is possible to obtain consent, please sign this Confidentiality Agreement and fax a copy to our office, with the hard copy to be mailed.

We are in the process of filing, for approval by the Securities & Exchange Commission ("SEC"), our Proxy Statement on Form 14-A. We expect that it will be filed with the SEC by Monday, July 18, 2005. The Proxy Statement contains information regarding Beneficial Ownership by Kenilworth Executives and Directors, their backgrounds, their direct holdings of Kenilworth Stock, and the usual Shareholders' Meeting Agenda.

Have a good weekend,

Sincerely,

KENILWORTH SYSTEMS CORPORATION



Andrew Hirko, Senior Vice President



**Jennifer Chelf**

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**From:** Jennifer Chelf  
**Sent:** Thursday, July 14, 2005 4:03 PM  
**To:** 'ahirko@kenilworthsys.com'  
**Cc:** Phil Sicuso; Ernest Yelton; Jenny Byrd; 'tarmstrong@sba.in.gov'  
**Subject:** RE: Confidentiality Agreement

Mr. Hirko:

I have discussed your letter dated July 14, 2005 regarding Kenilworth's Business Plan with Phil Sicuso, Chief Counsel for the Gaming Commission. The IGC Legal Division will need some time to review the issue regarding the confidentiality agreements. In the mean time, the IGC would appreciate receiving, as soon as possible, a copy of the Business Plan with the proprietary information deleted or redacted. If you have concerns or questions, please do not hesitate to contact me at (317) 233-0043.

Sincerely,  
Jennifer L. Chelf  
Director of Compliance

-----Original Message-----

**From:** Andrew Hirko [mailto:ahirko@kenilworthsys.com]  
**Sent:** Thursday, July 14, 2005 2:52 PM  
**To:** jchelf@igc.state.in.us  
**Subject:** Confidentiality Agreement

Dear Ms. Chelf:

The Confidentiality Agreement is attached.

-Andrew

Andrew Hirko  
Senior Vice President  
**KENILWORTH SYSTEMS CORPORATION**  
185 Willis Avenue Suite 4  
Mineola, NY 11501

Phone (516) 741-1352  
Fax (516) 741-7194  
Website: [www.Roulabette.com](http://www.Roulabette.com)

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10/5/2005